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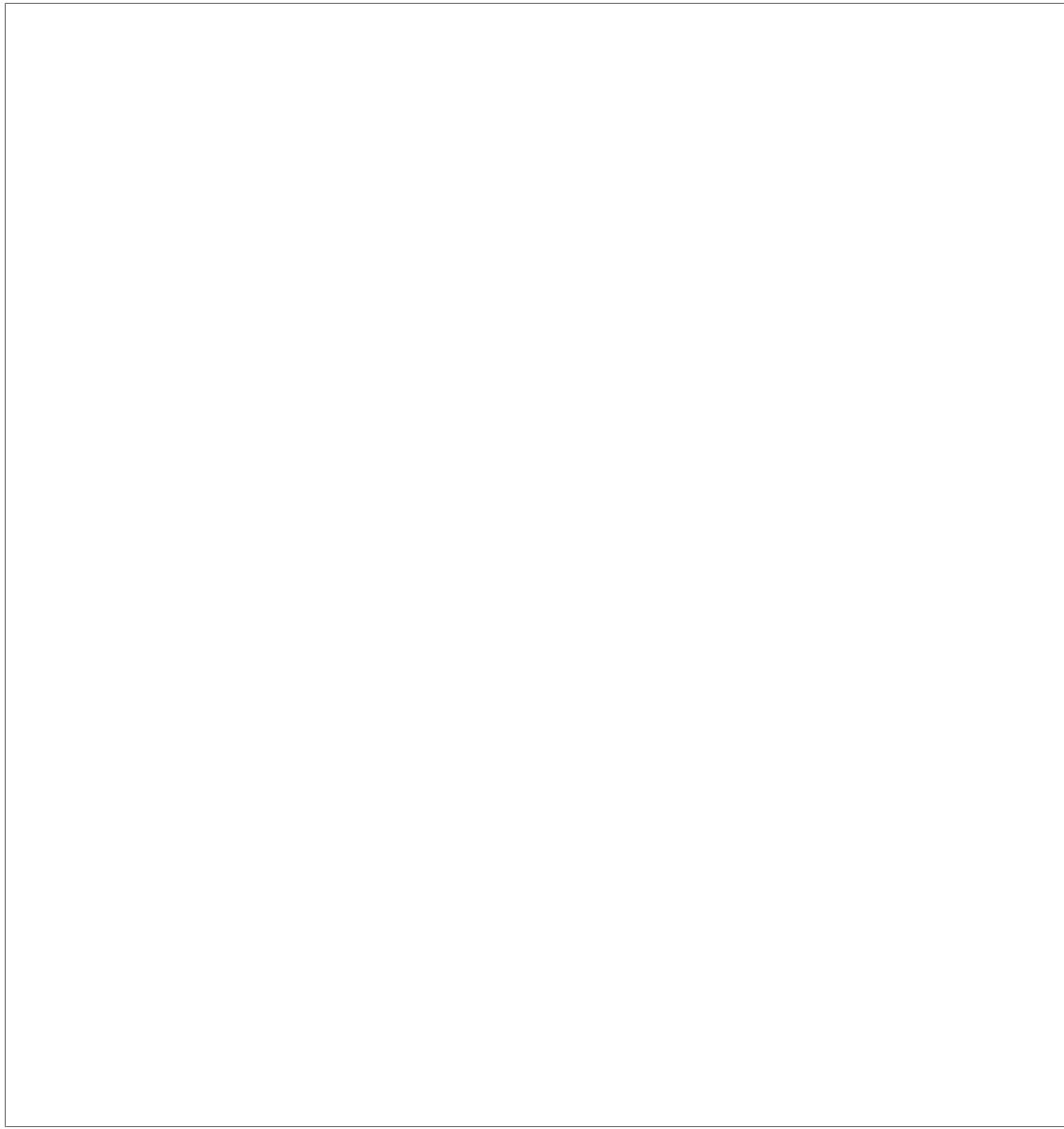
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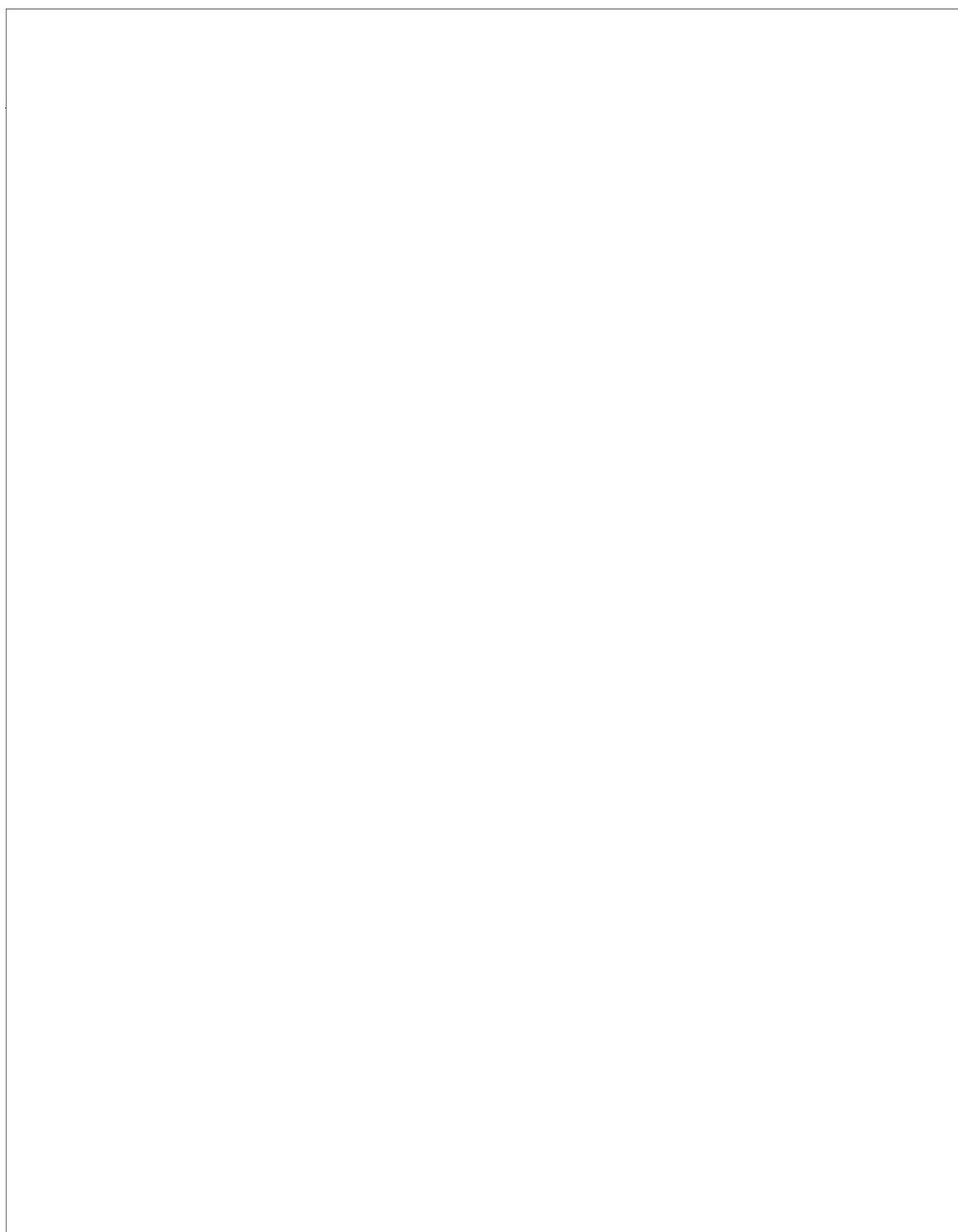
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IRAQ-KUWAIT: Temporary Lull

Baghdad has temporarily suspended its anti-Kuwait propaganda campaign but is not relaxing its military stance or reducing its political or financial demands; Kuwait is preparing some concessions.

Iraq's Saddam Husayn, keeping his pledge to Egypt's President Mubarak, yesterday halted his media campaign against Kuwait in preparation for talks set to begin tomorrow.

Iraq's rhetoric has played well at home, where anti-Kuwait sentiments are deep seated. Saddam has sent envoys to most Arab states to argue his case.

Comment: Whatever the outcome of the OPEC meeting, Baghdad almost certainly will maintain pressure on Kuwait in hopes of financial assistance and perhaps border concessions. The Iraqis

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OPEC Struggling Toward a Target Price

OPEC members have postponed decisionmaking sessions until today so Iraq, Saudi Arabia, Kuwait, and the UAE could meet separately to set a price target for the rest of this year. Although Iraq is adamant about obtaining a price target of \$25 per barrel, its Oil Minister has indicated publicly it might settle for less. Kuwait is being unusually conciliatory, announcing that it will go along with whatever the membership decides. Press reports indicate that Saudi Arabia is putting up the stiffest resistance to Iraq's price demands and that the two countries are debating a target between \$20 and \$21 per barrel.

Riyadh almost certainly wants OPEC's agreement to be credible and recognizes that a production ceiling of 22.5 million barrels a day is too high to achieve a price of \$25 per barrel unless Iraq moves against Kuwait militarily. Such a production level probably would result in prices of about \$20 per barrel, especially in the fourth quarter when demand will be stronger. Riyadh apparently is concerned that prices much above \$20 per barrel will stop growth in demand, reducing the prospects of future revenue increases and raising tension in the Gulf region.

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probably believe Kuwait will try to buy time by postponing decisions on the amount and form of financial assistance. Saddam is likely to hold out for at least several billion dollars in the near term and to press for the creation of an Arab reconstruction fund. He believes he already has broad Arab support for his efforts to rein in OPEC overproducers, and he probably is trying to gauge the likely Arab reaction to any military action against Kuwait.

Kuwait probably will write off Iraq's \$10 billion war debt as part of a broader financial relief package. It could also easily give Baghdad as much as several billion dollars over the next year, but it probably will not, unless given the cover of multilateral aid by the Gulf Cooperation Council states. Kuwait will try to tie new aid to specific projects so as to retain control over disposition of the aid, a position Baghdad is sure to reject.

Kuwait's basic security policy has been to balance relations with Iraq and Iran and to rely for protection on the collective capabilities of the superpowers, the GCC, and other Arab states. During this crisis it has not been able to check Iraqi aggression by moving closer to Iran or asking for Soviet intercession. Amir Jabir probably believes the lack of strong Saudi and GCC backing has increased Kuwait's vulnerability.

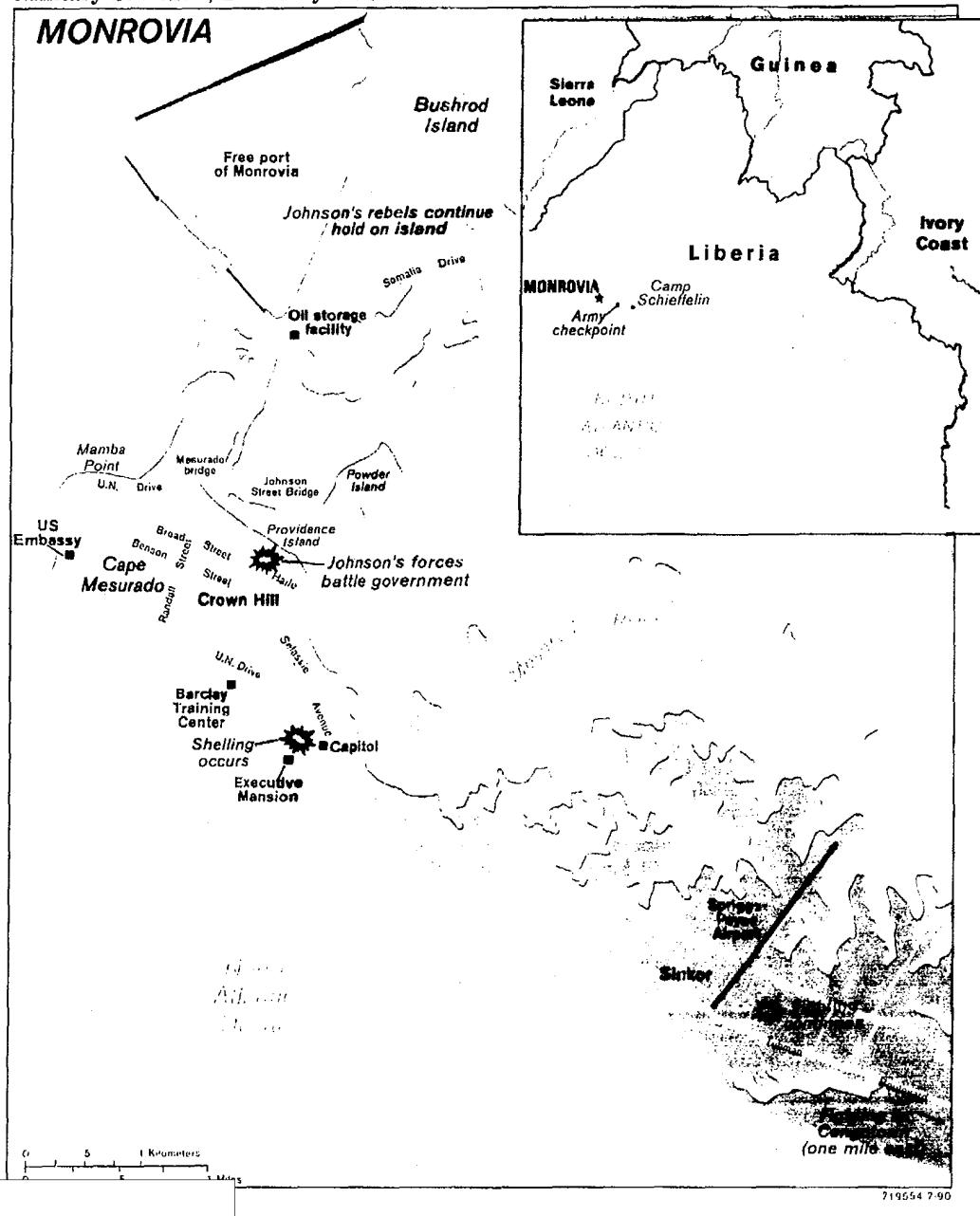
The UAE is not likely to offer economic aid to Iraq unilaterally, but it probably would contribute to a multilateral reconstruction fund. Abu Dhabi probably did not expect GCC support and is not likely to seek reassurances from the organization or any individual state in the region.

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Military Situation, Late July 1990



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~~Top Secret~~**LIBERIA:****Fighting Continues**

Fighting continued yesterday but quieted by midafternoon, probably indicating the rebels' capability for a sustained assault on downtown Monrovia is limited.

Eight to 10 explosions occurred near the Executive Mansion late Wednesday night, possibly caused by rebels firing from the vicinity of Spriggs-Payne Airport. There were reports of fighting around Crown Hill early yesterday, and heavy gunfire was heard at Spriggs-Payne Airport and in Congotown. The army temporarily abandoned the southern end of the Mesurado bridge in the morning, possibly allowing Prince Johnson's rebel forces to cross into the capital, but subsequently retook it. By midafternoon, Monrovia was quiet and the army was moving confidently throughout the city.

Army troops have abandoned Camp Schieffelin but have set up an alternate checkpoint along the highway into Monrovia. Soldiers still held the checkpoint yesterday despite intense fighting in the area.

Comment: The "battle for Monrovia" could drag on for several weeks or more. Johnson's rebel group, unable to launch a sustained attack or gain ground outside Bushrod Island, is likely to continue its hit-and-run tactics to weaken the army. The bulk of Charles Taylor's forces still are trying to fight past army units on the outskirts of the capital. President Doe probably has enough food, water, and munitions to last a month.

Army indiscipline and anti-US sentiment almost certainly will grow as the fighting wears on. US and other foreign installations are likely to become more vulnerable to break-ins.

As the military becomes desperate, it is increasingly likely to target US citizens and others it believes responsible for rebel successes.

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Soviet Media Stake Out More Independent Editorial Line

Several signs suggest that Soviet editors and others responsible for the media are increasingly testing the limits of *glasnost*:

- *Ogonyok*, the flagship of *glasnost*, has announced it is freeing itself from party control.
- The editor of *Pravda* says he wants the paper to become self-sufficient, perhaps implying a desire to improve its popularity by distancing it from the party. Although *Pravda* takes a middle-of-the-road line, it recently printed a startling article admitting that anti-Semitism is growing in the USSR.
- The Moscow city council has decided to establish two daily publications that will not be subordinate to the council; it will also establish a radio station.
- In the most outspoken media attack on the military leadership to date, *Komsomolskaya pravda* recently published a letter from 47 leading liberals suggesting that a coup of some sort might take place as a result of an alliance between the military and other traditionalist forces.
- A Soviet publisher is joining with *Business Week* to issue the USSR's first major Western Russian-language magazine.

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USSR:

Glasnost Expanding

Grassroots pressure from Soviet editors and new moves by the leadership have expanded glasnost and will intensify demands for relaxing remaining media controls.

Gorbachev last week followed up his recent decree giving parties and organizations outside the CPSU access to TV and radio by rejecting calls to clamp down on "communication and dialogue." Glavlit, the government censorship administration, announced it will no longer review publications beforehand but will simply be available to consult with editors on questions of state secrets; editors will be responsible for not printing classified information.

Several Soviet publications have recently exhibited considerable frankness and willingness to operate more independently of the CPSU even though official meddling still occasionally occurs. Those restraints were excised when a KGB officer confiscated the first edition of a newspaper written by delegates to the recent party congress.

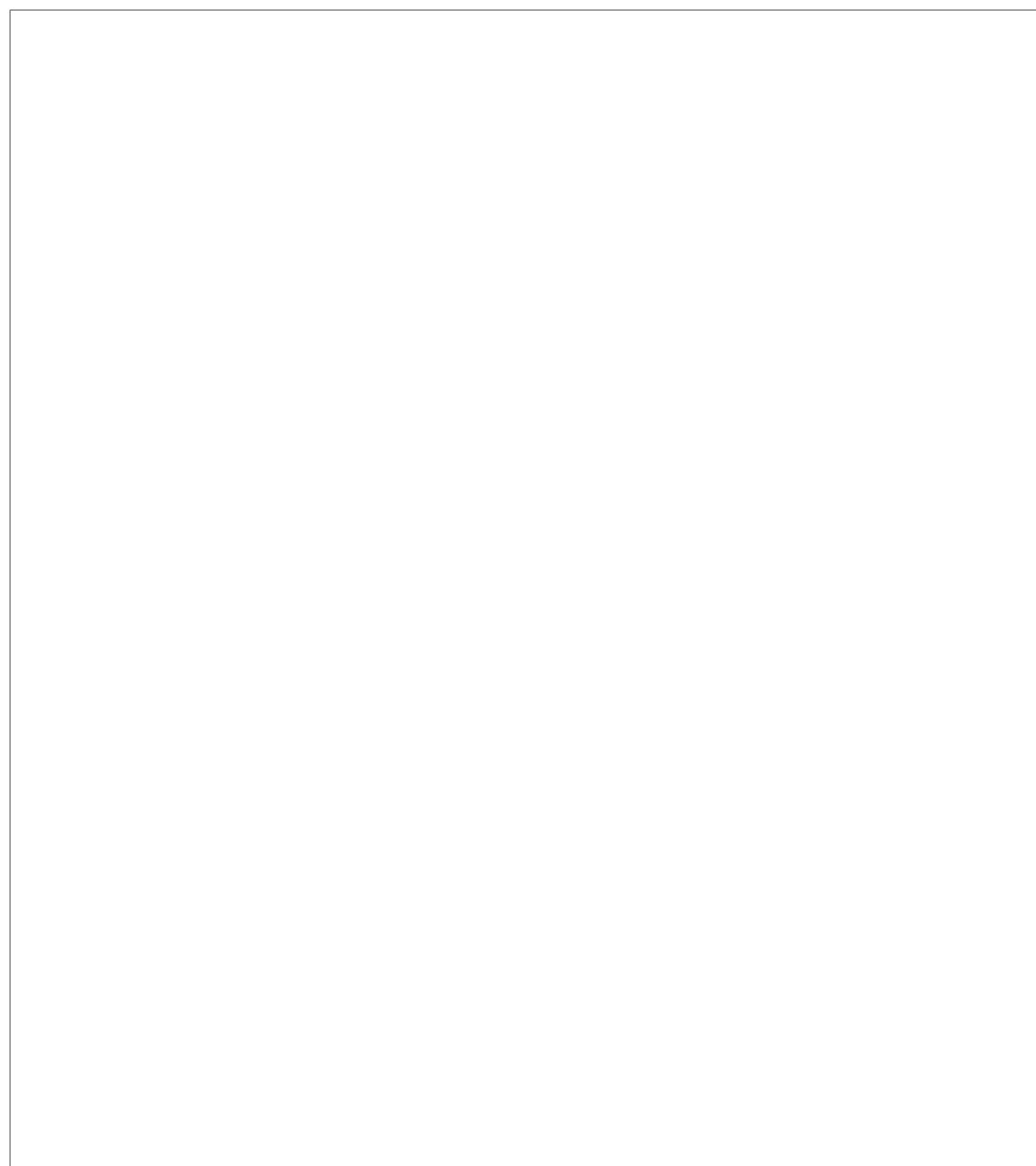
Comment: Writers and editors seem to be moving quickly to establish independent publications in accordance with the procedures laid out in the law on the press. At the same time, local party officials undoubtedly will occasionally try to censor the media as problems in implementing the new press law are ironed out.

The editors may be responding to the devolution of authority to republic governments and legislatures; Boris Yel'tsin, in particular, has lambasted the dependence of Russian Republic media on central TV and radio officials. Editorial boldness will encourage local government councils to fight party organizations harder for control over the media, including the financial and material resources of newspapers.

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PERU:

President-Elect Fujimori Off to Shaky Start

President-elect Fujimori, who takes office tomorrow, apparently is prepared to abandon campaign promises of painless solutions to Peru's economic problems but not to deal with the anticipated popular reaction against the shift.

Fujimori's senior economic adviser says the President will implement drastic measures to cope with inflation, which is projected to reach a rate of more than 60 percent for this month.

the new government may move slowly to enact changes and planners lack details on financial resources and that recent resignations from Fujimori's economic team have intensified internal coordination problems. Moreover, although contemplated price rises for goods and services the public sector provides might initially push inflation above 200 percent a month, Fujimori reportedly has yet to finish an emergency social welfare plan to offset any popular backlash. Outgoing President Garcia has publicly urged labor unions to oppose the adjustment measures.

Comment: Fujimori won the runoff election last month by a margin of nearly 23 percent, but this move toward an orthodox stabilization program threatens to undermine his popular support. He probably would have had to contend with demands from restive labor unions and disgruntled consumers seeking protection of their purchasing power even if Garcia had not called them to action.

If his popular support fades, the sizable opposition will find more political gain in opposing the Fujimori government than in cooperating with it.

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Moscow's View

The Soviets see the declaration as helping to inaugurate a new era in European security, and as evidence NATO is taking a less threatening posture. They are well aware that a drafting exercise will neither prolong the real life of the Warsaw Pact nor give it legitimacy in the eyes of the West. Moscow hopes the existing alliances will play major roles in the transition to a Pan-European security system but is not counting on the Pact remaining intact in the interim.

Moscow has welcomed the NATO commitment to a joint declaration and has referred to it as a declaration between the blocs, but Shevardnadze has indicated that it does not have to be signed on a bloc-to-bloc basis. He also expressed willingness to open the joint declaration to signature by CSCE members and is likely to be open to national negotiations on the document. Moscow would prefer a cooperative consensus in developing the declaration but would still consider even limited consultations a useful means of continuing dialogue among Pact members.

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EASTERN EUROPE: Nervous About Nonaggression Declaration

Several East European states have recently expressed concern that Moscow could use NATO's proposed joint declaration on nonaggression to help legitimize and prolong the existence of the Warsaw Pact. [redacted] the Soviets have argued that developing the declaration's language would require cooperation among Pact states. [redacted] Moscow wants a document that requires common drafting within the Pact, but Warsaw prefers to work from a NATO or US draft. Hungary has suggested calling the document a "Declaration of Security Cooperation," which would be drafted and signed at the Conference on Security and Cooperation in Europe (CSCE). [redacted]

Comment: The East European countries—except Bulgaria—are pressing for a new Pact structure that permits consultation on political issues but does not require a common position. Most prefer that the declaration be negotiated and signed by individual Pact members. In the near term, Hungary, Czechoslovakia, and Poland probably will continue promoting CSCE, rather than the alliance, for discussing such security issues as the nonaggression declaration.

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Trouble Down on the Farm

Agricultural workers represent approximately 30 percent of the Polish labor force, and the country's 2.7 million private farms include 75 percent of the cultivated land:

- Private farms average only 12.5 acres.
- Many small farmers are accustomed to working in nearby industries, but they are heading layoff lists as factories retrench.

Polish farmers, many of whom bypass local procurement monopolies by selling directly to consumers in town markets, must cope with a decrepit agricultural infrastructure. The government's economic reforms and austerity program have added new difficulties:

- Warsaw has removed almost all price restrictions, raising the costs of fuel, equipment, seeds, and credit.
- Wheat is being bought for \$63-77 per ton, about \$100 below world prices.
- Farmers in the Krakow area receive only 4 cents per liter for milk, which costs them several times that amount to produce.

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POLAND: Truce With Farmers but Problems Remain

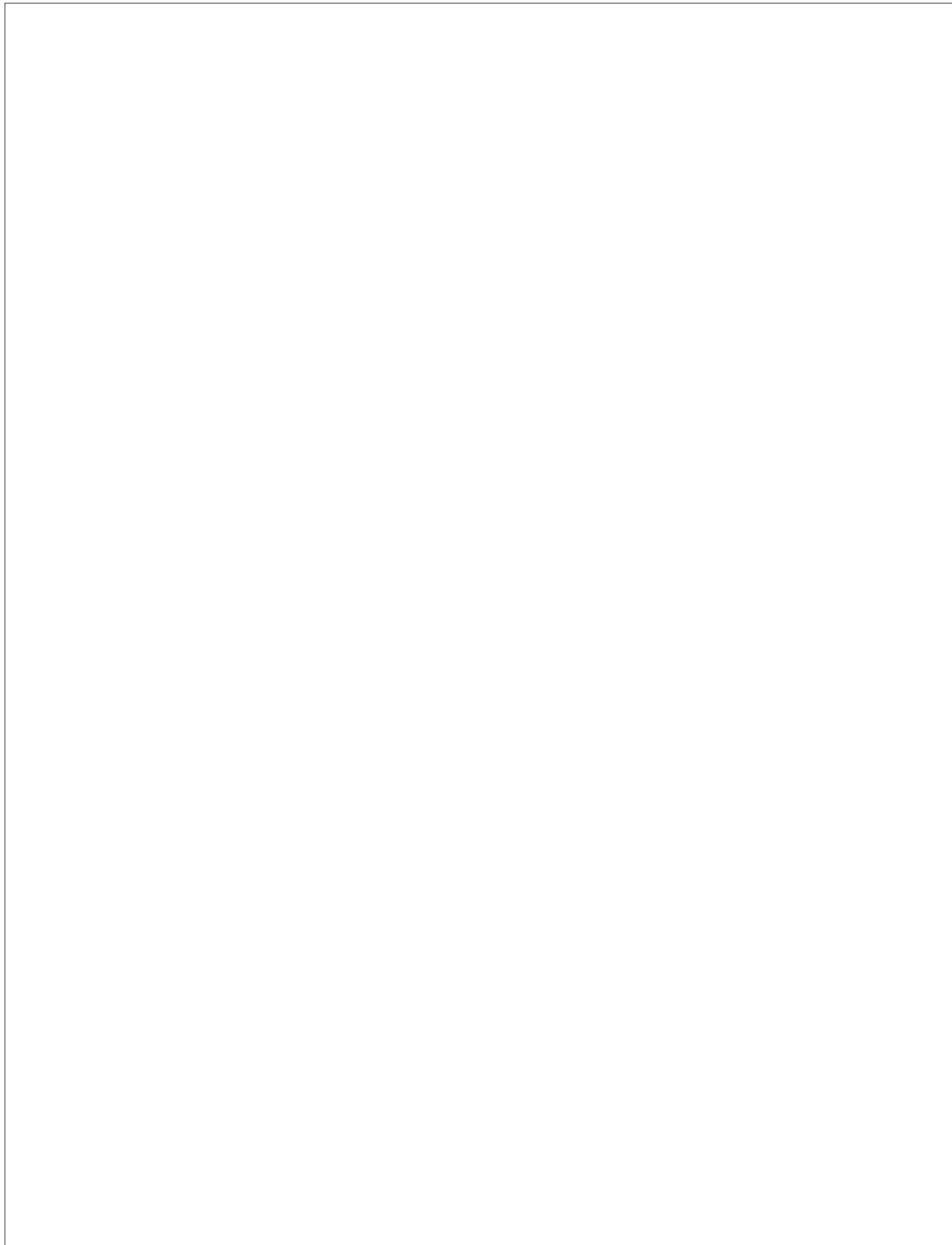
The Mazowiecki government on Wednesday agreed to use subsidized credits to lower the cost of farm inputs and to boost procurement prices for grain products. It also promised to provide about \$84 million to restructure the dairy industry and discourage farmers from culling their herds. The cabinet approved most of these moves earlier this month. Warsaw also pledged to promote agricultural exports while maintaining "rational" protection of the domestic market.

Comment: The agreement at best probably will temporarily forestall further outbursts of rural discontent; the absence of agricultural price guarantees virtually guarantees trouble. Farmers, many of whom work tiny, inefficient plots, are among the harshest critics of the economic reform program and are particularly angered by what they see as foot-dragging in breaking up the local monopolies that often control the sale of farm inputs and the purchase of farm products. The austerity program also has lowered demand while food grants from foreign donors have further depressed farm prices. Peasant-affiliated parties provide about 40 percent of the government's legislative majority, and the largest, the Polish Peasants' Party, recently threatened to pull out of the coalition. Such a move is unlikely in the near term, but the government's ability to hold restive rural delegates will be severely tested in coming months as farmers find that customary grain purchasers already hold large stocks of unsold produce.

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~~Top Secret~~**EL SALVADOR: Peace Talks End on Positive Note**

The government and the FMLN insurgents yesterday agreed to a UN-proposed document on human rights but postponed discussion of the most difficult topic, military reform. The human rights document, introduced to break an impasse, specifies guarantees on such issues as rights for individuals arrested or detained. The agreement, to take effect with a cease-fire, also calls for a UN mission to verify rebel and government compliance. The FMLN earlier rejected a government proposal on military reform, saying it failed to address such key rebel demands as a purge of military officers accused of human rights abuses. According to press reports, leaders of both sides believe some progress has been made.

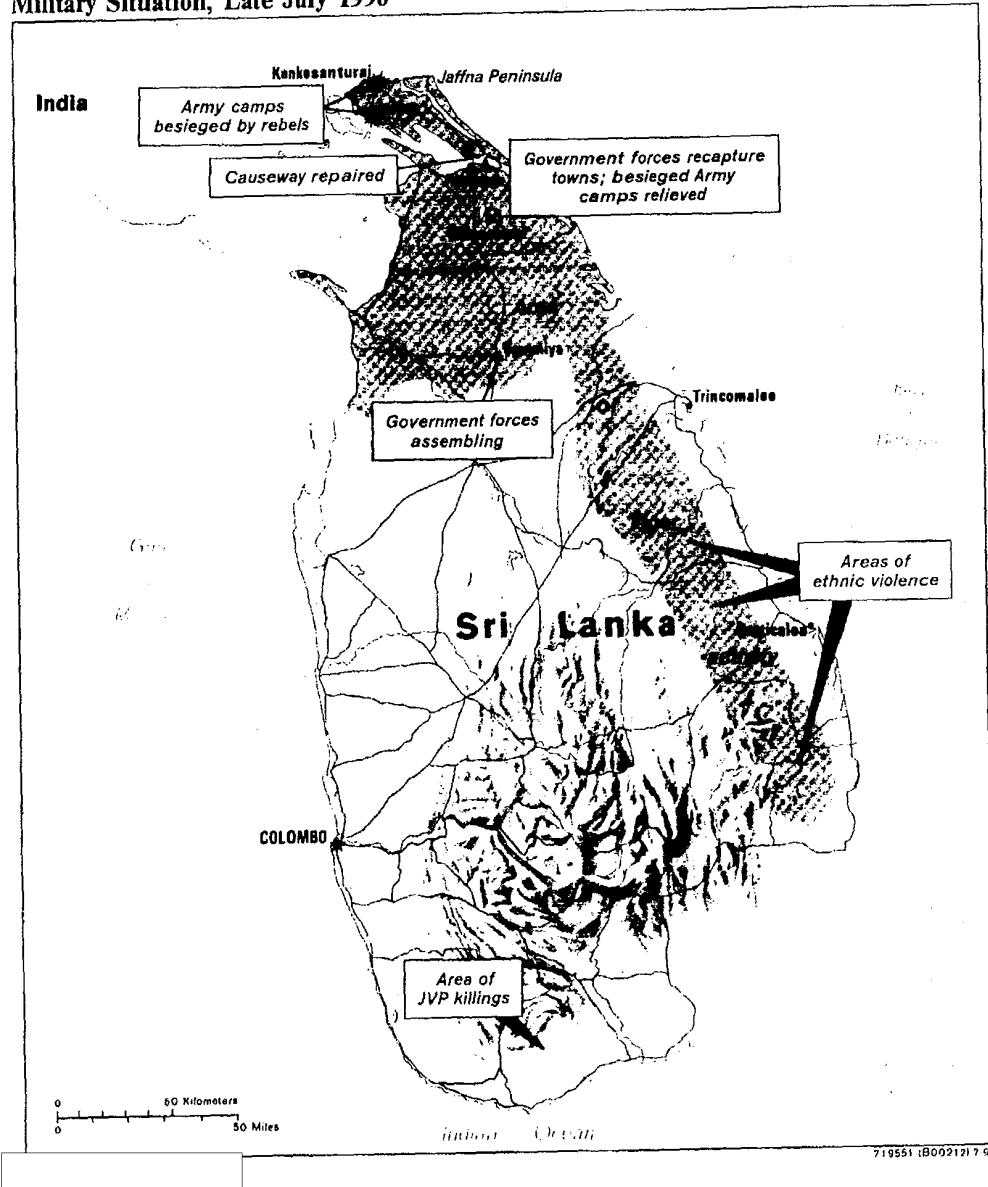
Comment: Both sides showed flexibility, agreeing to extend talks a day and to switch topics so as to reach some agreement, but the mid-September target date for a cease-fire remains overly optimistic. Armed forces reform probably will be addressed in the next round, the fourth, set for San Jose sometime next month. The UN representative appears to have played a pivotal role in keeping the parties talking and may try next time to present a UN-drafted document on armed forces reform.

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Government forces this week recaptured two northern towns, relieved besieged Army camps, and repaired a causeway linking the mainland and the Jaffna Peninsula. The Army has about 8,000 men in the north, as well as aircraft. It has executed Tamil Tiger supporters and searched door-to-door for Tigers in the east, [redacted]

[redacted] The Tigers have massacred more than 100 Sinhalese and Muslim civilians in the past two weeks, and Muslims have killed some 60 Tamils. Suspected members of the Marxist Sinhalese militant JVP struck Wednesday for the first time in more than six months, killing 15 members of a police-sponsored vigilance committee in the south. [redacted]

Comment: The undermanned Army has not regained full control of the east and probably will not try to retake the Jaffna Peninsula soon. It may send paratroopers to reinforce its camps. The Tigers may increase attacks in the east to force the Army to redeploy there. The Army has been professional overall, but local commanders may have carried out summary executions in the east. Ethnic violence probably will mount, particularly as the Army transfers security responsibility to local volunteers. The JVP may stage more assassinations but probably is still too weak for a comeback. [redacted]

PHILIPPINES: Economic Impact of the Earthquake

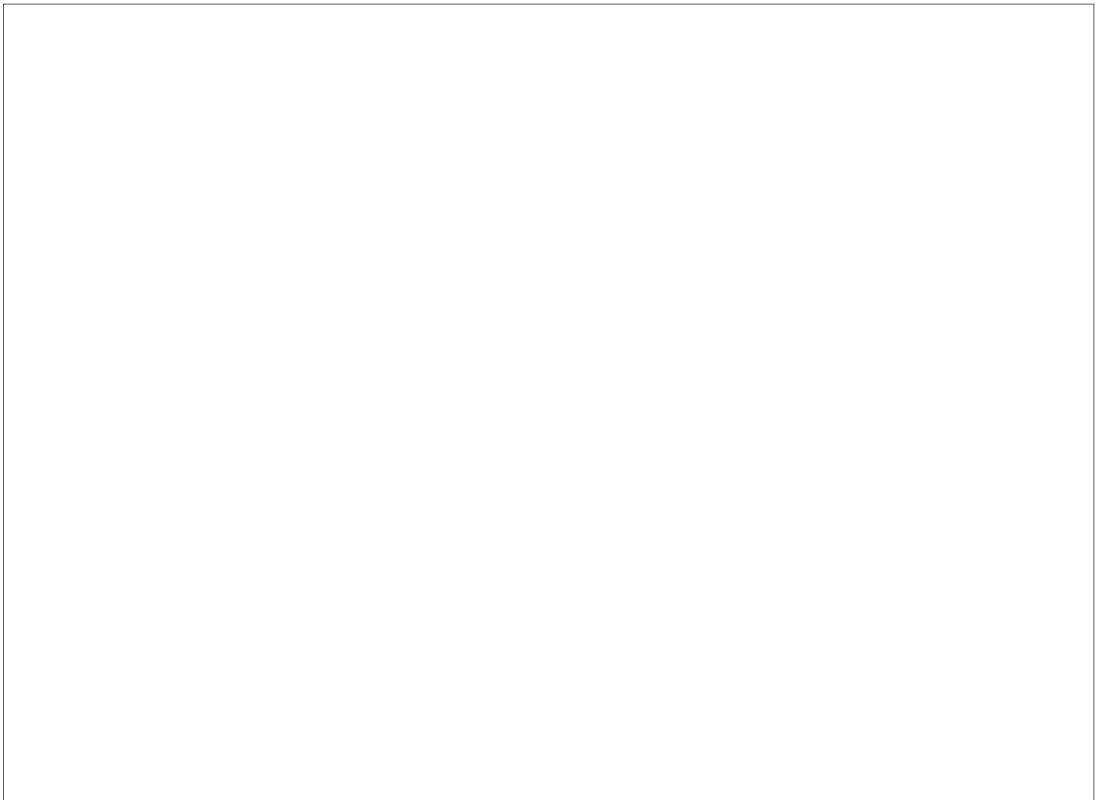
Authorities plan to spend more than \$1.3 billion on airports, communications facilities, bridges, and other damaged infrastructure. Farming areas and market roads in north and central Luzon were hit hard; rice prices in Manila are inching up, and some vegetable and fruit prices have doubled. The House of Representatives recently passed a resolution in favor of suspending interest and principal payments on the country's \$26 billion foreign debt for 30 months so as to save nearly \$3 billion for rehabilitation. Aquino has rejected any unilateral effort to stop debt payments. [redacted]

Comment: Before the earthquake, the domestic economy was projected to grow about 4 percent this year as compared with 6 percent last year; some Philippine economists now predict 3-percent growth. Agriculture, hurt by a drought earlier this year, is likely to stagnate. Government spending in many parts of the country will decrease as scarce resources are diverted to hard-hit areas. Manila's plan to use a government savings program to finance much of the reconstruction almost certainly will increase the budget deficit and inflation, currently 12 percent a year. Manila probably will ask for emergency assistance from foreign donors and may negotiate with commercial banks for easier repayment terms. [redacted]

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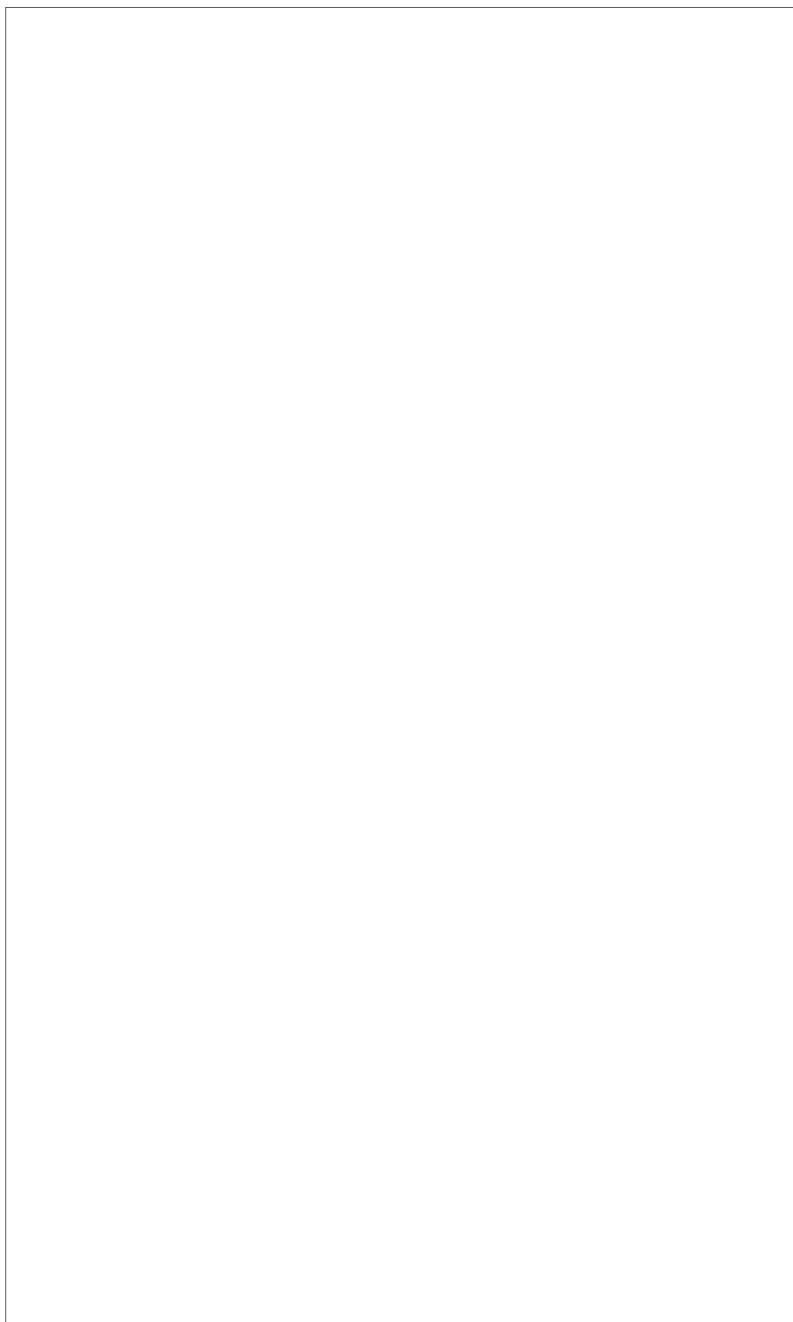


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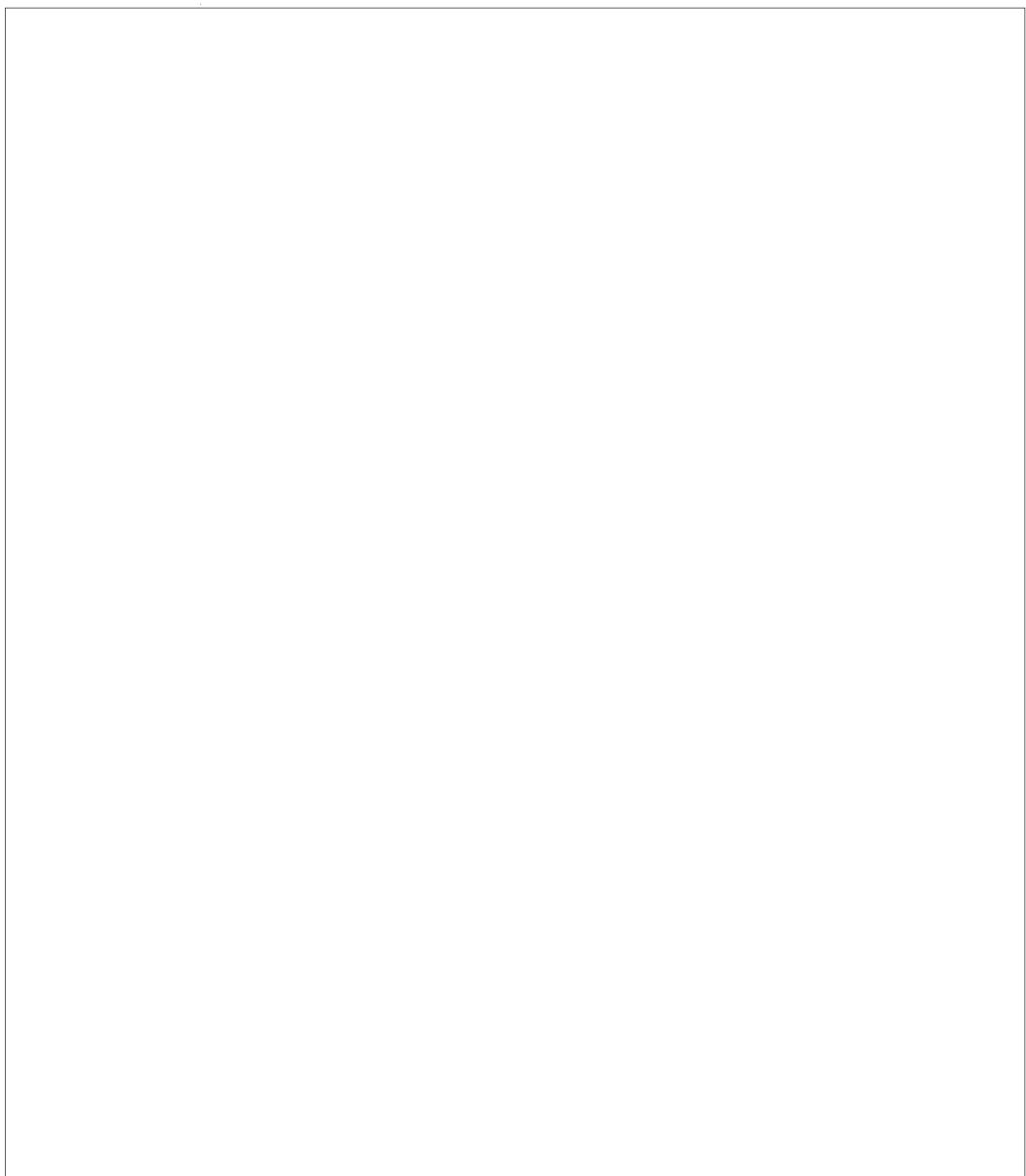
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In Brief

East Asia

— North, South **Korean** agreement yesterday to hold prime-ministerial talks may fall through if unification rally on 15 August canceled . . . propaganda battle intensifying, bickering over rally arrangements likely to continue.

Europe

— Four members of **Italian** cabinet, including Defense Minister Martinazzoli, resigned yesterday . . . seeking greater say in policy . . . government will fall if Prime Minister Andreotti cannot strike deal before tonight's vote of confidence.

USSR

— Soviet military, Interior Ministry officials yesterday said they will enforce presidential decree banning armed groups . . . senior officers' solidarity meant to intimidate nationalists . . . **Caucasus** most likely scene if Moscow acts to implement decree.

Middle East

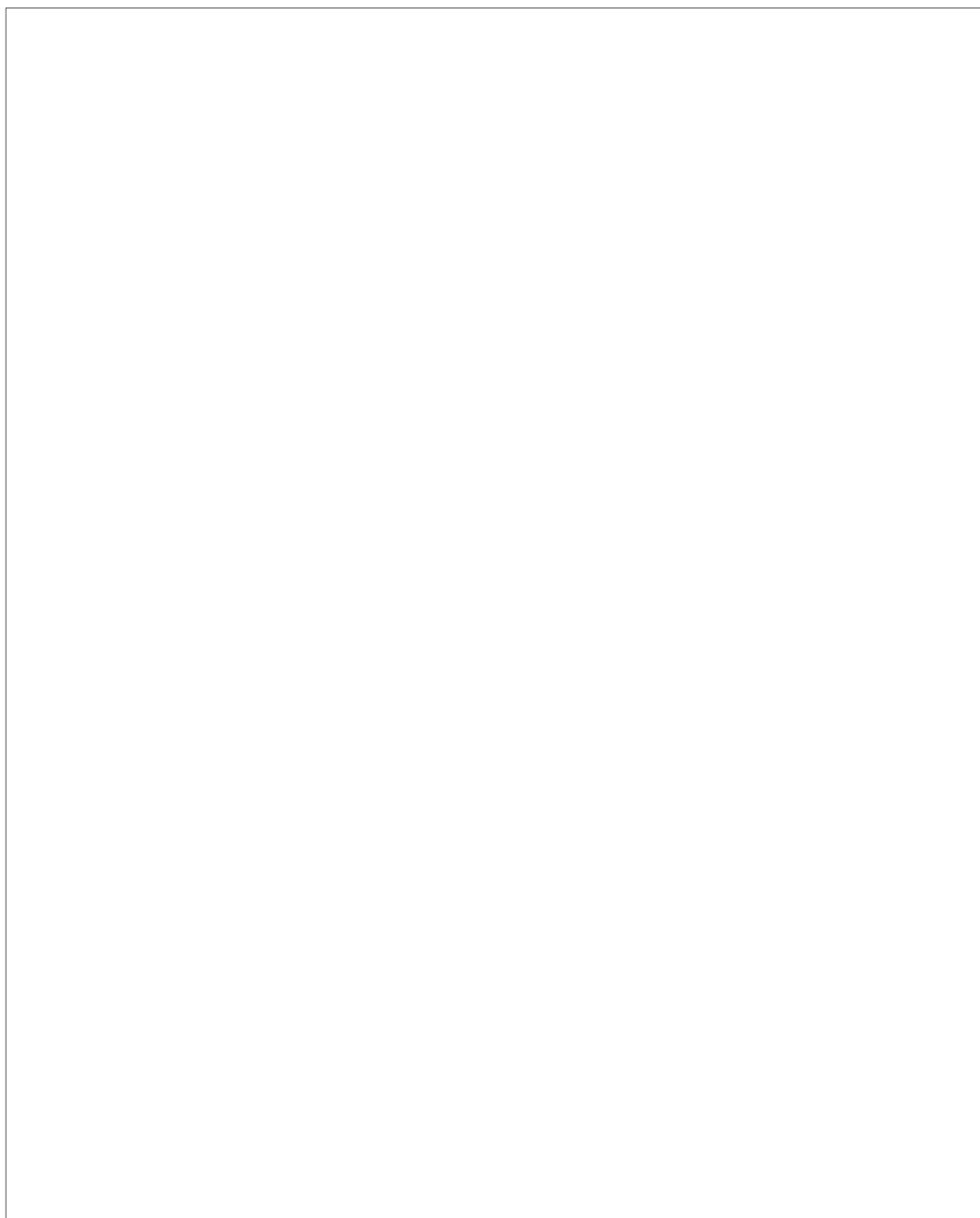
— USSR has opened commercial mission in Tel Aviv, **Israel** to follow suit in Moscow . . . Israeli Finance Minister reportedly invited to Moscow to discuss joint ventures . . . Soviets hope to increase economic cooperation.

— Support for boycott of US goods growing among **Jordanian** professionals, businessmen, leftist legislators . . . boycott unlikely to materialize, government probably will oppose . . . resentment of US Middle East policies increasing.

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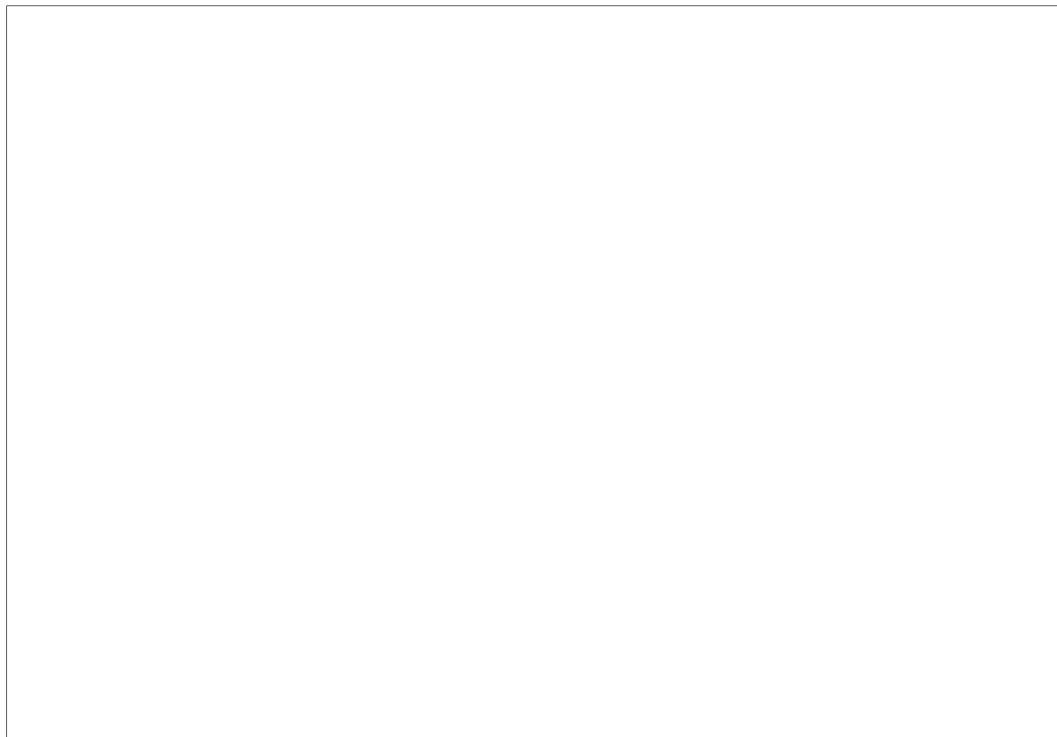
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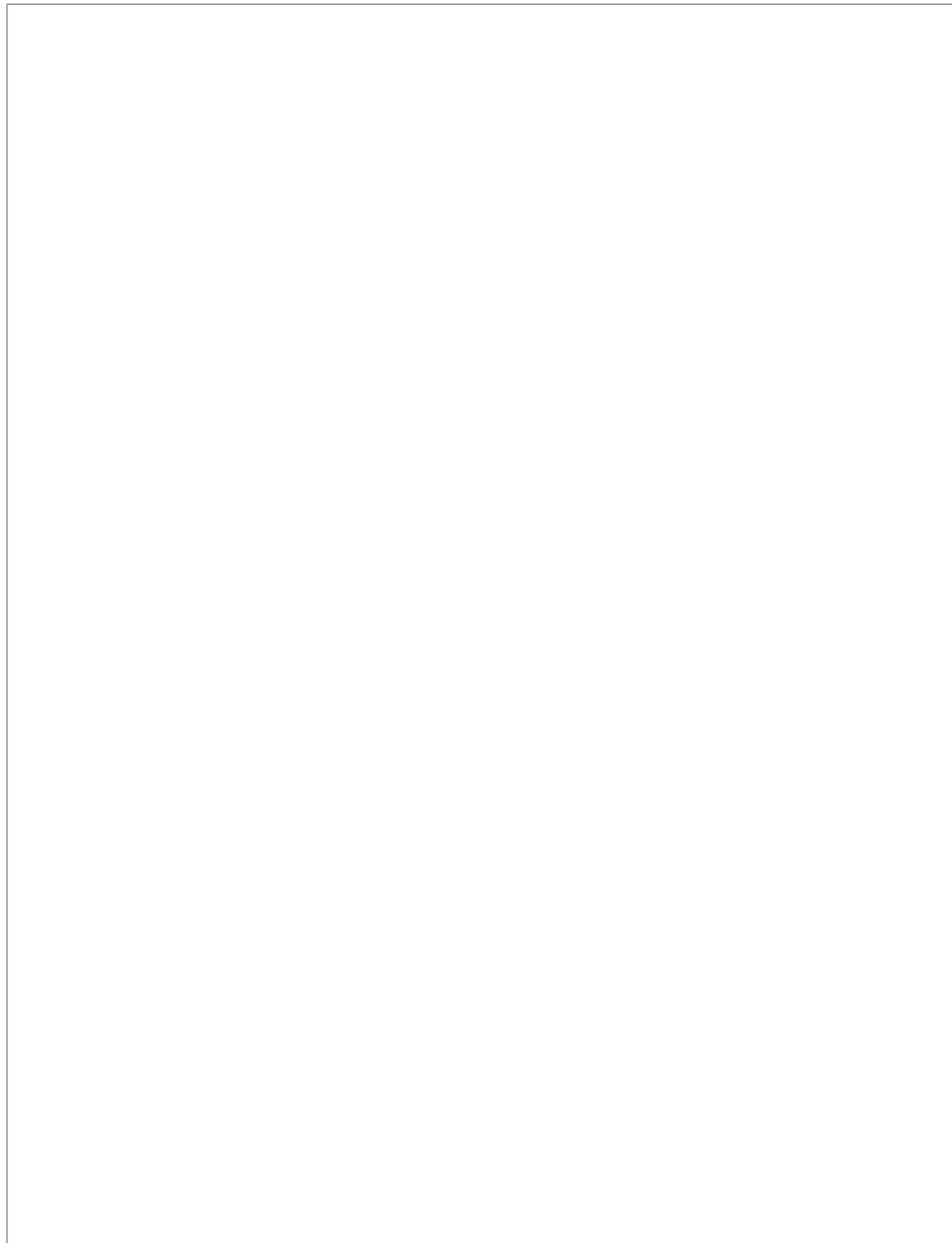


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Special Analysis

JAPAN: **Kaifu Riding High**

Prime Minister Kaifu is in a far stronger position than when he took office last summer. His strength is based on personal popularity that could erode quickly if the Liberal Democratic Party mishandles any of several controversial issues.

Kaifu, whom party leaders initially viewed as only a stopgap Prime Minister, has won widespread public support; a recent poll showing 63 percent of the voting public backs him makes Kaifu the most popular LDP Prime Minister ever. He has won high marks for resolving trade disputes with Washington and representing Japanese interests at the G-7 summit in Houston. Kaifu's youth and oratorical skills add to his image.

Kaifu's high ratings have won him the support of certain crucial party leaders. LDP strongman Shin Kanemaru, for example, told reporters last week he favors retaining Kaifu as Prime Minister.

Because Kaifu depends so heavily on public approval, the LDP's management of several controversial issues will be critical to his staying power. This fall, a special Diet session will consider revising the 3-percent consumption tax that helped bring Takeshita down. The party is also moving toward liberalizing Japan's rice market. Polls show urban voters favor such a move but farmers are far from convinced.

Political scandal also could undercut Kaifu's popularity. Earlier this summer, the Prime Minister's aide was implicated in questionable financial dealings. Kaifu emerged unscathed but remains vulnerable to taint from Japanese "money politics."

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